International Conference at the Brno University of Technology,
Faculty of Business and Management, April 30, 2019 Brno, Czech Republic
Perspectives of Business and Entrepreneurship Development in Digital Transformation of Corporate Business

The reaction of the Slovak Financial Administration to transfer pricing issues

Michal Istok[a*], Kamil Scerba[a], Jana Stasova[a]

[a] *Department of Finance and Accounting, Faculty of Economics, Matej Bel University, Tajovského 10, Banská Bystrica, 975 90, Slovakia*

Abstract

Purpose of the article The main purpose of this paper is to bring a new perspective on the connection of transfer pricing, its controls by the Financial Administration of the Slovak Republic and the transfer of the headquarters of Slovak companies to selected tax havens.

Methodology/methods The analysis is based on the use of secondary data from the Annual Reports of the Slovak Financial Administration and the company Bisnode (2005-2017). The paper uses graphical methods to visualize the development of the selected indicators and calculation of the ratio of corporate income tax revenues (CITR) per gross tax revenues (GTR). The last method is a simple linear regression model that detects the dependence between the number of companies with ownership link to tax haven and the number of transfer pricing controls performed.

Scientific aim The scientific aim of this contribution is to analyze the approach of the Slovak Financial Administration in the context of tax audits in the framework of transfer pricing, supplemented by an analysis of the relationship between controls on transfer pricing and the moving of Slovak companies into tax havens.

Findings Since 2015, there has been a sharp increase not only in the number of tax inspections for transfer pricing, but also in the level of findings. An increasing number of Slovak companies with the owner in midshore jurisdictions have a statistically significant impact on the number of inspections carried out under transfer pricing and the number of Slovak companies with owners in Cyprus, Luxembourg and Liechtenstein has a statistically significant impact on the share of CITR per GTR.

Conclusions The main limits include the incomplete list of tax havens which are used at the first level of ownership by Slovak companies. The outcomes of our analysis point to the statistically significant impact of the use of companies from Cyprus, Luxembourg and Liechtenstein on corporate income tax revenues, but do not specify the methods and techniques of profit shifting applied by the companies.

Keywords: corporate income tax, financial administration, Slovak Republic, tax haven, tax inspection, transfer pricing

JEL Classification: H25, H26, H70

[*] Corresponding author. Tel.: +421 48 446 6326.
E-mail address: michal.istok@umb.sk

Introduction

Transfer pricing is an increasingly discussed topic not only in the world, but also in Slovakia, where every year the number of tax inspections grows in this area. The subject matter at an academic level is often viewed only in terms of transfer pricing, dependent and independent relations and various constraints. We have looked at the transfer pricing from the point of view of the Financial Administration of the Slovak Republic and also from the point of view of transfer pricing relation and relocation of the headquarters of Slovak companies into jurisdictions called tax havens.

Based on available data, the scientific aim of the contribution is to analyze the approach of the Slovak Re-public's financial administration in the context of tax audits of transfer pricing, supplemented by an analysis of the relation between controls on transfer pricing and the transfer of Slovak companies into tax havens. The partial aim is to point to the indicators used by the SR's Financial Administration for transfer pricing controls and the impact assessment of the transfer of the registered office of Slovak companies in selected jurisdictions to the corporate income tax revenue and gross tax revenues indicator.

The basic constraints limiting our contribution are mainly incomplete data of the Slovak Republic's Financial Administration on transfer pricing for selected years and a limited list of tax havens where Slovak companies are based according to the database of Bisnode, ltd.

1 Theoretical background

In the professional literature we encounter several ways of transferring profits within tax systems (from jurisdictions with higher tax burden to jurisdictions with lower or no tax burden). These profit-shifting techniques include the use of debt, interests, royalties, placement of intangible assets, financing of related persons, setting dividend flows and ultimately transfer pricing (Karkinsky and Riedel, 2012; Auerbach et al., 2017). However, for the sake of our further investigation, we only chose the last option.

Tax havens often associated with the transfer of profits are not only small tropical islands with low or no taxation and full offshore jurisdictions, but also countries that have a diversified economy and a normal tax system but with certain, often deliberately designed, exceptions for particular activities or types of corporate activities that can be used by multinationals to substantially lower their overall tax burden (onshore and midshore) (e.g. Weizig and Van Dijk, 2007; Valencia, 2013; Foad and Lundberg, 2017).

Transfer pricing is a technique that optimizes costs and returns between divisions and subsidiaries within a group of related entities, not only the accounting technique (Tax Justice Network, 2015). This technique allows the artificial transfer of profits from high tax jurisdictions to jurisdictions with lower tax burden (Sikka and Willmott, 2010; Ball, 2013). From another perspective, transfer pricing is a phenomenon by which affiliated legal entities in different jurisdictions determine the price at which goods or services should be sold between those two entities. This phenomenon is an indispensable and endemic part of the international trading system (Bastin, 2014). Transfer prices "are the prices for goods and services that each subsidiary and parent company accounts for in the transnational corporation" (Ďurčová, 2011; Valencia, 2013). Taxpayers are focused on reducing taxable business earnings, so they are interested in generating profits where they are most tax-friendly (Solilova and Nerudova, 2013). This advantage can be achieved by transferring profits between foreign affilites to countries with the lowest rate of income tax. High transfer rates for the sale of goods by affiliates in high tax rates are used to repatriate profits to low tax countries, thereby reducing the overall tax burden (Behrens, Peralt and Picard, 2014; Usmen, 2012).

Business consultants agree that transfer pricing is currently one of the most important tax planning topics. With regard to a rapidly regulated environment where transparency is at the forefront, taxpayers achieve a degree of certainty in managing their taxes and potential risks through so-called "Advance pricing agreements" (APA) (agreement between the tax authority and the taxpayer on appropriate transfer pricing methodology for a selected set of transactions for a specified period of time) (PWC, 2014). Using APA, there is often a double non-taxation in corporate income tax using low or zero-tax jurisdictions (one of the potential profit-shifting channels to tax havens) (Fernandez et al., 2013).

OECD, whose individual standards are transposed by the Member States, either in full or partially altered, helps in further transfer pricing regulations (Blouin et al., 2018). The OECD Transfer Pricing Risk Assessment Guide recommends setting a threshold for a transaction at which value (tax amount) it is appropriate to initiate tax control when tax control is effective. This "threshold" should be set according to the annual gross value of the transactions under control or the total company income. Of course, recurring transactions themselves may not pose a risk, but other factors need to be taken into consideration (i.e. whether transaction prices are in accordance with the principle of an independent relationship, where transactions are directed, or jurisdictions with higher tax burdens, etc.) (OECD, 2013).

The new OECD Transfer Pricing Regulation focuses primarily on multinational companies and, in addition to modifying the documentation on global and transfer pricing, also significantly improves tax authorities' awareness, which has an impact on a better assessment of tax risks and more targeted processes in the transfer pricing audit (OECD, 2017). However, multinational companies and their tax optimization led to discussions even before that. In 2013, the OECD developed a Base Erosion and Profit Shifting (BEPS) project containing 15 action areas, reports and recommendations to tax avoidance for countries (Dharmapala, 2014). These reports were first published in a complete package in October 2015. The main focus of BEPS is on unfair practices aimed at minimizing tax liability through tax base distortions and the subsequent transfer of profits to other countries (OECD, 2013). In addition to the transfer pricing section, BEPS also provides a framework for tax challenges in the digital economy. To that end, the European Commission reflected the proposal for directives, namely Proposal for a COUNCIL DIRECTIVE laying down rules on the corporate taxation of a significant digital presence (COM / 2018/0147 final - 2018/072 (CNS)) and Proposal for a COUNCIL DIRECTIVE on the common system of taxation for digital services (COM / 2018/0148 final - 2018/073 (CNS)).

2 Methodology and data

Based on available data, the scientific aim of this paper is to analyze the approach of the Slovak Republic's Financial Administration in the context of tax audits within transfer pricing, supplemented by an analysis of the relationship between controls on transfer pricing and the transfer of Slovak companies into tax havens. The partial aim is to evaluate the indicators published by the financial administration and to assess the impact of the transfer of Slovak companies into tax havens on the indicator of corporate income tax revenues per gross tax revenues.

Graphical methods, calculation of indicators and simple linear regression model are used for the analysis of the selected issue. In the first part of the analysis using graphical techniques, which are supplemented by indicators of tax administration efficiency, we show the dependence of the number of findings by the Financial Ad-ministration of the Slovak Republic on the number of controls performed. Efficiency is measured by the proportion of the controls (findings in thousands of EUR) and the number of tax inspections carried out (findings per number of transfer pricing controls). The second part of the analysis uses also, in addition to graphical methods depicting the dependence of findings by the Financial Administration of the Slovak Republic on the number of transfer pricing controls, a simple linear regression model, which determines the dependence between the number of tax controls carried out on transfer pricing (dependent variables) and the number of Slovak companies with ownership link to tax havens (independent variable). In this part of the analysis, we have divided the jurisdictions into three categories, namely OFFSHORE, MIDSHORE and ONSHORE. The breakdown was based on two approaches. The first was the frequent distribution of tax havens to these categories in academic and professional sources (e.g. Foad and Lundberg 2017; The Economist, 2013), and the second approach was the use of first-level ownership in selected countries given the benefits that can be used. In offshore jurisdictions, the use of first-level ownership is primarily intended for the anonymity of the UBO (Ultimate Beneficial Owner), tax optimization directly using offshore jurisdictions alone, due to the existence of a withholding tax (35%) is nearly impossible. The OFFSHORE jurisdictions include: Bahamas, Belize, Bermuda, British Virgin Islands, Gibraltar, Guernsey (United Kingdom), Jersey (United Kingdom), Cayman Islands, the Marshall Islands, the Netherland Antilles, Panama, Man Island and Seychelles. Other jurisdictions we have data of from Bisnode, ltd. are further included in the onshore category, sometimes using midshore (professional and academic resources). We have divided them on the basis of their primary use, in the case of taxes, we have used the MIDSHORE CATEGORY (Hong Kong, Cyprus, Malta, United Arab Emirates, United States of America); in the case of the primary asset management concept and the flexible arrangement of ownership relationships, we used ONSHORE CATEGORY (Liechtenstein, Latvia, Luxembourg, Monaco and the Netherlands).

In the last part we use the calculation of corporate income tax revenues (CITR) per gross tax revenues (GTR). The simple linear regression used in the last part of the analysis examines the dependence between the calculated indicator (dependent variable) and the number of Slovak companies in selected jurisdictions - Cyprus, the Netherlands, Luxembourg, Liechtenstein, Malta, United Arab Emirates and the USA (independent variable x). All regressions are evaluated at 5% significance level. We have chosen the tested jurisdictions given the assumption that it is possible to use methods and techniques of profit-shifting (mainly based on double taxation treaties, EU Directives and tax information exchange agreements) through first-level ownership.

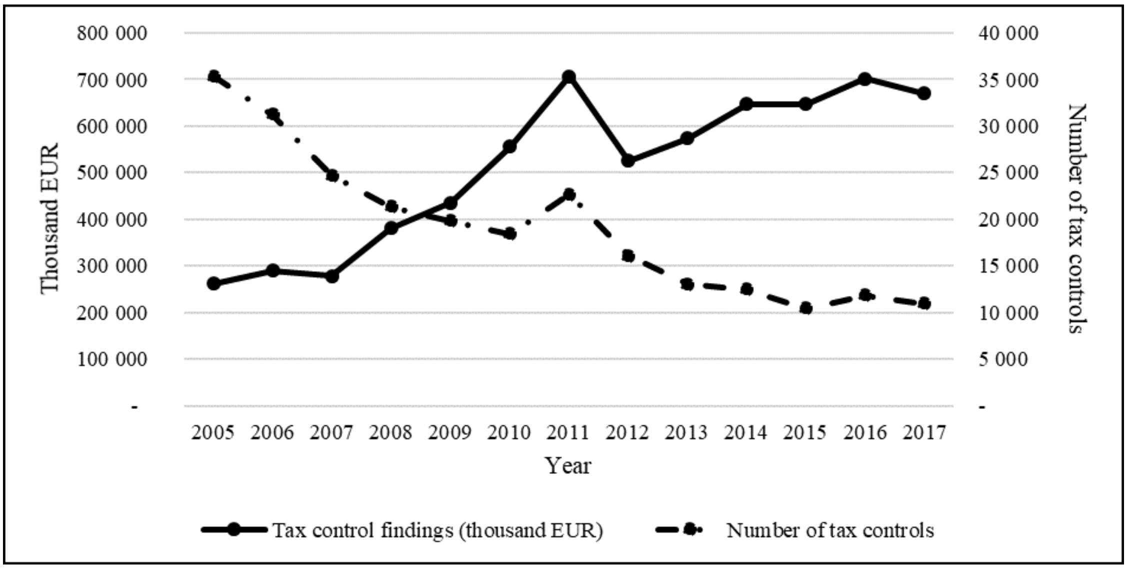
The secondary data used for the analysis are drawn from the annual reports of the Slovak Republic's Financial Administration for the period 2005 to 2017. We obtained the information on the number of companies that moved their registered office to another jurisdiction from Bisnode, ltd. also for the period 2005-2017.

3 Results

The research results were divided into three parts, based on which we examined the matter in different ways. First part is an analysis of the Financial Administration of the Slovak Republic approach and effectivity. This was executed based on the indicators regularly published by the Financial Administration. Second part is focused on transfer pricing, related indicators and examination of the relationship between transfer pricing controls and the number of Slovak companies that transferred their registered offices to selected jurisdictions during the period considered. In such examination we are dividing the jurisdictions not only to onshore and offshore but for the purposes of anticipated statistical significance we are adding the third group, midshore. Third part of the analysis shows the indicator calculated by us, a share of corporate income tax revenues (CITR) per gross tax revenues (GTR). This part also covers the relation between development of number of companies in selected jurisdictions (Cyprus, Netherlands, Luxembourg, Liechtenstein, Malta, United Arab Emirates and USA) and development of CITR/GTR indicator. The whole analysis is based on the data collected between 2005 and 2017.

3.1 Development of tax control indicators

Tax control is considered to be a large-scale activity which serves to examine or verify the tax base or other matters decisive for correct tax determination or chargeability. In general, the tax control serves as an important prevention tool and as such, together with other inputs, promotes voluntary tax compliance by taxable persons. Based on this we examined the results of all tax controls carried out between 2005 and 2017 (Figure 1).



Source: the authors based on annual reports of Slovak Financial Administration, 2005-2017

Figure 1 Development of number of carried out tax controls and findings

The number of total tax controls (both direct and indirect taxes) carried out significantly decreased since 2005 and showed a downward trend from 35,333 to the current 10,956 controls per year while in the last three years the average number of controls carried out was eleven thousand. The effectivity of these controls, measured by the number of findings per control, is on the other hand increasing every year. This is shown in the source table (Table 1), where in the beginning of the examined period there were 7,400 EUR of findings per control while in 2010 it was around 30,200 EUR and currently, the number is almost the double, there are 61,000 EUR of findings per one control.

Table 1 Selected indicators of the Financial Administration of the Slovak Republic

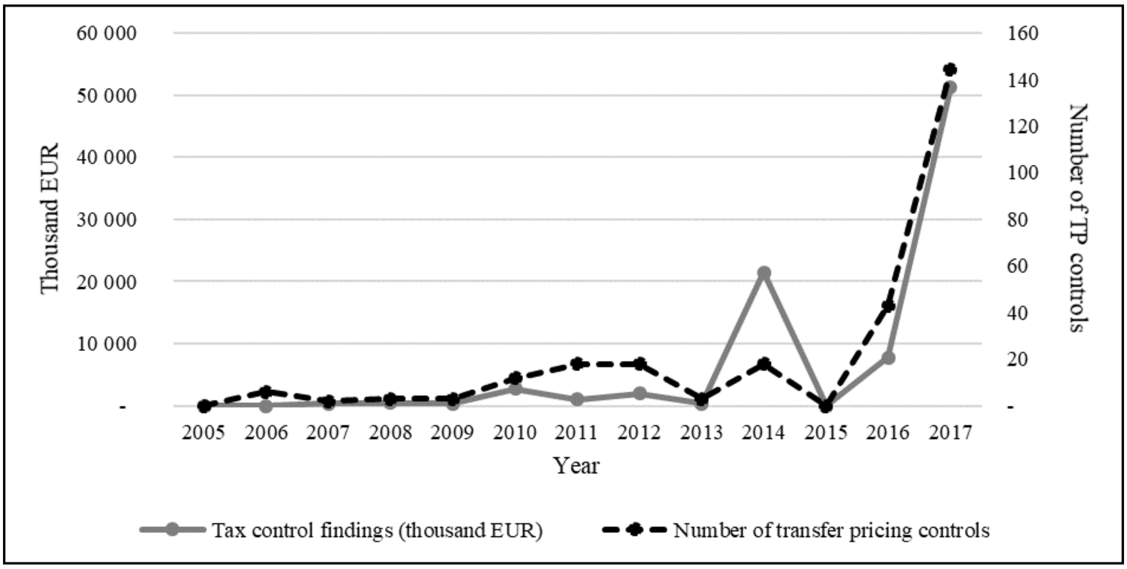
	2005	2006	2007	2008	2009	2010	2011
Number of tax controls	35,333	31,243	24,711	21,357	19,820	18,400	22,651
Tax control findings (in thousand EUR)	261,866	289,523	278,814	380,868	435,549	556,278	707,097
Average finding per control (in thousand EUR)	7.4	9.3	11.3	17.8	22.0	30.2	31.2
	2012	2013	2014	2015	2016	2017	
Number of tax controls	16,053	13,059	12,488	10,417	11,823	10,965	
Tax control findings (in thousand EUR)	525,096	573,215	646,863	647,293	701,368	670,056	
Average finding per control (in thousand EUR)	32.7	43.9	51.8	62.1	59.3	61.1	

Source: the authors based on annual reports of Slovak Financial Administration, 2005-2017

The reason for positive results of tax controls is a fact that during the preparation stage the Financial Administration of the Slovak Republic is focusing on collecting and evaluating high quality and relevant data which increases the effectivity of controls. That means that the Financial Administration of the Slovak Republic is selecting the subjects for tax control more precisely and tax inspectors are better prepared for tax controls. We could also consider higher number of incorrectly managed documentation by specific subjects which is increasing. There are higher demands on documentation management and software and there are frequent legislative changes in place. There are also findings of individual controls with high value that therefore increase the financial average finding of all controls.

3.2 Tax controls focused on transfer pricing

Since the Financial Administration of the Slovak Republic started to focus on the international taxation and transfer pricing and initiated an intensive tax control in this area by allocating specialized inspectors, we observe the change in the development of these controls' findings. On Figure 2 we can see the control activities of the Financial Administration of the Slovak Republic, more precisely of the transfer pricing tax controls and tax control findings.



Source: the authors based on annual reports of Slovak Financial Administration, 2005 – 2017

Figure 2 Development of controls and findings within the scope of transfer pricing

In the figure, we can see that since 2013 the number of transfer pricing controls show an increasing tendency (except for 2015 when the data was not published by Financial Administration). It can be assumed that with the introduction of action plan BEPS in October 2015, the number of controls increased, which influenced the higher number of tax controls in 2016 as is shown on the figure. In 2017 the number of controls reached the highest point. In that year tax inspectors carried out not only transfer pricing controls but also network controls, multilateral controls and controls focusing on applying double tax treaties. Together 144 such controls were carried out with the finding of 51,152 EUR. This action of the Financial Administration of the Slovak Republic could be a result of individual changes in the Income Tax Act together with BEPS action plan implementation.

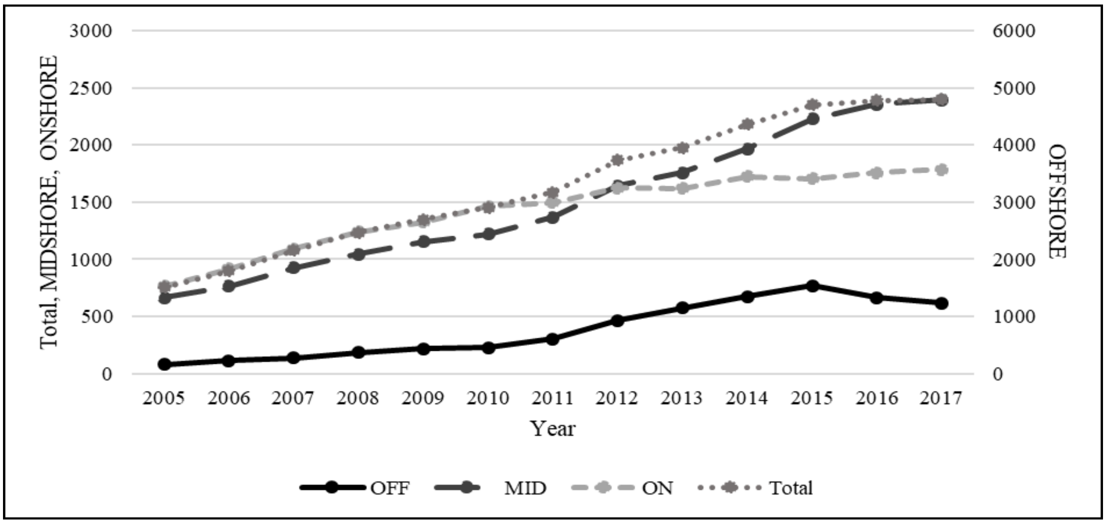
In 2015 the Financial Administration of the Slovak Republic also published a useful checklist that should help tax administrators while carrying out controls focused on transfer pricing (Table 2).

Table 2 Risk transactions checklist

Indicator	Brief description
Transactions with related parties in preferential tax regime jurisdictions	The risk of wrong pricing followed by profit-shifting to jurisdictions with preferential tax regime.
Transfers of intangible assets to related parties	Such transactions are difficult to evaluate, especially in cases related to a specific intangible asset with no data to compare with.
Business restructuring	These aspects were specifically described in Chapter IX on the Transfer Pricing Aspects of Business Restructurings from July 2010.
Specific payment types	Interests, premium insurance and royalties often cause transfer pricing risk; the payments do not reflect added value of dependent entity.
Long-term loss-making	Long-term loss-making where there is no attempt made to change business operations or financing. Sustained losses may be evidence that the reported results do not reflect the true value of the business.
Unfavourable financial results	Similarly results that are not consistent with industry norms or with the functions carried on by the taxpayer in the country concerned may be an evidence that related party transactions have not been correctly priced.
Effective tax rates	If there are significant variations between the effective tax rate reported at group level and the nominal rates to which it is subject can be the result of transfer pricing that allocates too much profit to jurisdictions with preferential tax regime.
Incorrect or non-existent documentation	If the taxpayer cannot provide the transfer prices setting and the methods used to determine them are inadequately recorded, it is a sign of transfer pricing risk.
Excessive Debt	If the debt of the taxpayer is in excess of the amount that an entity could borrow if it were a free-standing entity, or interest rates that appear to be higher than market rates.

Source: the authors based on Financial Administration data, 2015

Transfer pricing itself, as was mentioned in the theoretical section, is a technique used for tax planning and enables artificial profit shifting out of jurisdictions with a high tax burden to jurisdictions with a lower or no tax burden. Therefore, we investigated the relationship between the number of transfer pricing controls and the number of Slovak companies that transferred their registered offices to a tax haven. We examined this relation-ship in terms of the whole analysed period from 2005 to 2017, not only in respect of the number of companies, but also in respect of individual jurisdiction categories – offshore, midshore and onshore. The below figure (Figure 3) shows the development in the number of companies according to the Bisnode database. Whether it is an ONSHORE or MIDSHORE jurisdiction we can see a continuous increase in the number of companies that transferred their registered office to tax havens. The only category with decreasing tendency is OFFSHORE and this only occurs since 2015. We could assume that one of the reasons for a decrease in the offshore category is a negative perception of an offshore company as an owner at the first ownership level.

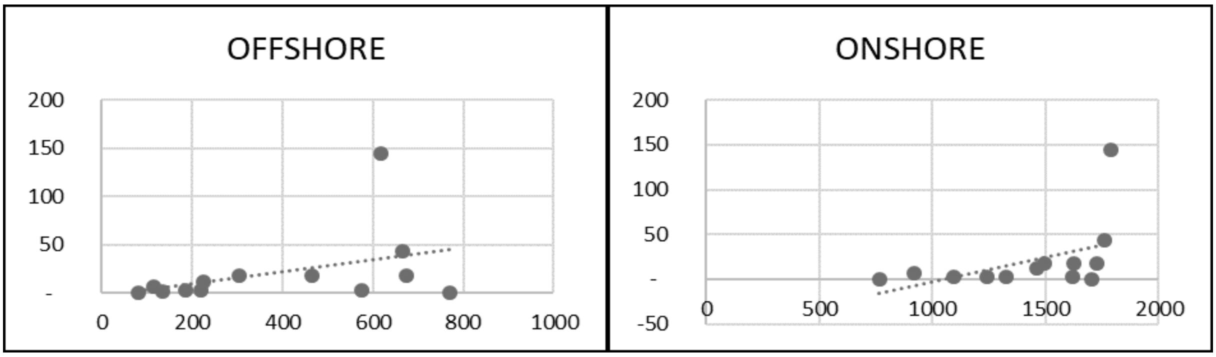


Source: the authors based on data from Bisnode database, 2018

Figure 3 Development of the number of Slovak companies in tax havens

Looking at the development in the number of tax controls and the number of companies that transferred their registered offices to a tax haven we can assume a positive relationship, however this is not supported by the statistical survey. We verified the relationship through simple linear regression model. As variables we selected the number of transfer pricing controls (dependent variable y) and the total number of companies that transferred their registered office to tax havens (independent variable x). Thereafter we changed the independent variable with the number of companies in ONSHORE, MIDSHORE and OFFSHORE jurisdictions. We evaluated the relationship based on p-value and 5% significance level.

The results of the first version of the regression model which includes the number of transfer pricing controls and the total number of companies (total) that transferred their registered office to a tax haven were statistically insignificant because the p-value exceeded the significance level 0.05 (p-value = 0.067), therefore did not confirm the statistically significant dependence. However, the result indicated that the statistical significance might be confirmed by following tests with the division of jurisdictions into OFFSHORE, MIDSHORE and ONSHORE. The following analysis showed that the relationship between the number of companies that transferred their registered office to ONSHORE and OFFSHORE jurisdictions and number of transfer pricing controls examined at 5% significance level (p-value (ONSHORE) = 0.11; p-value (OFFSHORE) = 0.18) was not confirmed, which is also the results of the figures



Source: the authors

Figure 4 Relationship between the number of transfer pricing controls and the number of companies in OFFSHORE and ONSHORE jurisdictions

Statistical significance dependence was only confirmed regarding the relationship between the number of transfer pricing controls and the number of companies that transferred their registered offices to MIDSHORE jurisdictions.

This relationship highly confirms our assumption that companies in midshore category are used in the process of tax optimization, hence the Financial Administration of the Slovak Republic carries out more controls. Such a statement is to a large extent a simplification, considering the list of tax havens we are working with. However, we could see a tendency of a kind.

Table 3 Results of simple linear regression of MIDSHORE jurisdictions

	Regression Statistics				
Multiple R	0.582763005				
R Square	0.33961272				
Adjusted R Square	0.279577513				
Standard Error	33.01905				
Observation	13				
	df	SS	MS	F	Significance F
Regression	1	6167.4715	6167.4715	5.6569	0.0366
Residual	11	11992.8362	1090:2578		
Total	12	18160.3077			

Source: the authors

3.3 Relationship between the number of companies in selected jurisdictions and corporate income tax revenues

In the last section we examined an indicator measuring collection of corporate income tax revenues, a share of corporate income tax revenues (CITR) per gross tax revenues (GTR) and its correlation with the changing number of Slovak companies that transferred their registered offices to selected jurisdictions (Cyprus, Nether-lands, Luxembourg, Liechtenstein, Malta, United Arab Emirates and USA). These jurisdictions, as mentioned earlier, could be used for tax optimization on the first-ownership level. We based our indicator calculations on data published by the Financial Administration of the Slovak Republic in their annual reports. The increase of findings and therefore also effectivity of tax controls is reflected in the growth of gross tax revenues. On the other hand, the development of corporate income tax rate (CITR) is not that clear because it is influenced by aggressive tax planning of companies (not only the large ones) and specific business conditions in the Slovak Republic (high tax burden, discriminatory income tax, etc.). The development is shown in Table 4.

Table 4 Development of selected indicators

	2005	2006	2007	2008	2009	2010	2011
Corporate income tax R.(in thousand EUR)	1,417	1,594	1,769	2,156	2,167	1,286	1,646
Gross tax revenue (in thousand EUR)	5,688	5,675	5,985	6,564	6,342	5,286	5,852
Indicator (CITR/GTR) (in %)	24.91%	28.09%	29.56%	32.85%	34.17%	24.33%	28.13%
	2012	2013	2014	2015	2016	2017	
Corporate income tax R.(in thousand EUR)	1,759	2,028	1,948	2,641	3,222	2,637	
Gross tax revenue (in thousand EUR)	5,536	6,282	6,571	8,079	8,816	8,820	
Indicator (CITR/GTR) (in %)	31.77%	32.28%	29.65%	32.69%	36.55%	29.90%	

Source: the authors based the data from annual reports of the Slovak Financial Administration, 2005-2017

Calculated indicator is at a level of 24.33% in 2010, when Slovak entrepreneurs experienced the financial crisis at its fullest, to a level of 36.55% in 2016. This could have been influenced also by frequent changes of corporate income tax rates over the years (19%, 23%, 22% and 21%) and other changes in selected provisions of Income Tax Act.

Provided that tax optimization is taking place, the continuous increase in the number of Slovak companies in tax havens should have an influence on investigated indicators, therefore CITR/GTR (hypothesis). Table 5 contains the results of regression analysis according to which only several jurisdictions showed statistical significance.

Table 5 Results of simple linear regression of selected jurisdictions

ONSHORE jurisdictions	Netherlands	0.12 (2.9182)
	Luxembourg	0.05 (4.6373)
	Liechtenstein	0.03 (6.5601)
MIDSHORE jurisdictions	Cyprus	0.05 (4.738)
	Malta	0.15 (2.4558)
	United Arab Emirates	0.19 (1.9036)
	United States of America	0.09 (3.287)

Note: first number represents p-value, number in braces represents t-statistics

Source: the authors

4 Discussion

As mentioned in the theoretical part of this article, transfer pricing is one of the channels for profit-shifting to jurisdictions with low or no taxation. Our results are consistent with Blouin et al. (2018), claiming that OECD and standard implementation into national legislations play an important role in the area of transfer pricing. Ob-served annual increase of Slovak companies linked to tax havens could not be in general considered as a positive development, especially if we take into consideration that tax havens are not only linked to tax optimization but mostly with the anonymity of the UBOs, which enables them to perform speculative businesses.

In comparison, in the Czech Republic there has been a decrease in this statistic since 2015 (Bisnode, 2018). On the other hand, there are opinions saying that tax optimization helps the business, especially when it comes to Foreign Direct Investment (FDI). To our best knowledge, there are no similar studies in Slovakia or there are no studies estimating the potential tax gap in corporate income tax revenues in regard to tax havens. Results achieved for individual jurisdictions are in accordance with expectations mainly because Cyprus belongs to a relatively simple and affordable option to use methods and techniques of profit shifting to another tax haven (for example to offshore jurisdictions). The relationship was also confirmed in regards to states used for foreign holding structural development where apart from tax optimization benefits such as asset management, asset protection and flexible arrangements of ownership structure exist.

On the contrary, statistical relationships were not confirmed for Netherlands, Malta and United Arab Emirates (it was confirmed for USA at 10% significance level). While Malta and United Arab Emirates are used by Slovak companies relatively rarely (by the end of 2018 only 109 Slovak companies had direct equity link with Malta and 174 with United Arab Emirates), Netherlands together with Cyprus belong to the most used jurisdictions (in 2018, Cyprus had 1099 and Netherlands 1154 links with Slovak companies). To put it very simply, based on achieved results we could say that Cyprus is used mostly for tax optimization, while Netherlands at first-level of ownership is mostly used regarding to asset protection and asset management, positive image and other (e.g. large network of double tax treaties). Based on our outputs we could speak about specific tendencies. The research was limited not only in respect to a relatively short list of tax havens but also the fact that we only had access to first-level of ownership. Revised international structures often consist of multiple levels and models of transfer – multiple uses and combinations of methods and techniques of taxable profit-shifting that can be performed in accordance with the tax system (e.g. Slovakia implemented thin-capitalization rules only from 2015). In future, research in this area should not focus solely on confirming profit-shifting out of the certain jurisdictions but also on implementation and a combination of individual channels of taxable profit-shifting based on individual tax systems set up. These analyses should also assist the decision-making process when it comes to tax system adjustment and reducing the artificial profit-shifting to tax havens. The Financial Administration of the Slovak Republic works with indicators, through which risk transactions of transfer pricing can be identified, can be considered positive. Several foreign academic researches and expert analyses cover the topic of individual indicators; therefore we can clearly consider their use as beneficial for tax inspection. As the examples of the previous studies on selected indicators we can mention ROA – Return on Assets (Potin et al., 2016), BTD - Book-Tax Differences (Frank et al., 2009; Ferreira et al., 2012) and different approaches to ETR, like Rate_GaapETR, Rate_CashETR or Rate_DVA (Dyreng et al., 2008; Hanlon and Heitzman, 2010; Da Silva and Martinez, 2015).

Conclusion

The total number of tax audits carried out by the Slovak Financial Administration has been gradually de-creasing since 2005, on the other hand a higher level of these inspections is recorded annually, and tax inspections show higher efficiency. On the other hand, from 2015, when the BEPS project was adopted, there has been a sharp increase in tax audits on transfer pricing and a similarly rapid increase in the findings of these controls. While the number of Slovak companies in the categories OFFSHORE (p-value 0.18) and ONSHORE (p-value 0.11) respectively TOTAL for all jurisdictions (p-value 0.067) does not have a statistically significant impact on the number of controls carried out in the transfer pricing field, in the MIDSHORE category, this dependency was evaluated as statistically significant (p-value 0.03). As part of the analytical work of the Slovak Financial Re-port, 9 indicators were developed and published, which assess the risk transactions in the transfer pricing. This practical checklist is one of the tools for tax administrators.

In the final part of the paper, it was statistically confirmed the statistical dependence between the number of Slovak companies with parent companies from Cyprus (p-value 0.05), Luxembourg (p-value 0.05) and Liechtenstein (p-value 0.03) and the ratio of corporate income tax revenues per gross tax revenues. Our analysis shows the increased attention of the Slovak Republic's Financial Administration to transfer pricing and the im-pact of the use of selected tax havens on selecting corporate income tax revenues.

Acknowledgment

This contribution was supported by grant scheme VEGA 1/0767/18 “SMART model - a decision support tool in the management of enterprises”.

References

AUERBACH, A. J., DEVEREUX, M. P., KEEN, M., VELLA, J. (2017). International Tax Planning under the Destination-Based Cash Flow Tax. *National Tax Journal*, 70(4), 783-802. Doi 10.17310/ntj.2017.4.04.

BALL, J. (2013). *Marks & Spencer under fire over online tax arrangements*. The Guardian, London. Retrieved from http://www.theguardian.com/business/2013/may/19/marks-spencer-tax-arrangements-europe

BASTIN, L. (2014). Transfer Pricing and the WTO. *Journal of World Trade*, 48(1), 59-80

BEHRENS, K., PERALT, S., PICARD, P. M. (2014). Transfer Pricing Rules, OECD Guidelines and Market Distortions. *Journal of Public Economic Theory*, 16(4), 650-680. Doi 10.1111/jpet.12075

BISNODE. (2018). *Daňové raje prišli o desiatky slovenských firiem*. Retrived from https://www.bisnode.sk/o-bisnode/o-nas/novinky/danove-raje-prisli-o-desiatky-slovenskych-fririem/

BLOUIN, J. L., ROBINSON, L. A., SEIDMAN, J. K. (2018). Conflicting Transfer Pricing Incentives and the Role of Coordination. *Contemporary Accounting Research*, 35(1), 87-116. Doi 10.1111/1911-3846.12375

DHARMAPALA, D. (2014). What Do We Know about Base Erosion and Profit Shifting? A Review of the Empirical Literature. *Fiscal Studies*, 35(4), 421-448. Doi 10.1111/j.1475-5890.2014.12037.x

DA SILVA, R., MARTINEZ, A. L. (2017). Restrição Financeira e Agressividade Fiscal nas Empresas Brasileiras de Capital Aberto. *Anais do Congresso Anpcont, Belo Horizonte*, MG, Brasil, 11

DYRENG, S. D., HANLON, M., MAYDEW, E. L. (2008). Long-run Corporate Tax Avoidance. *The Accounting Review*, 83(1), 61-82. Doi 10.2308/accr.2008.83.1.61

ĎURČOVÁ, J. (2011). *Medzinárodné formy podnikania*. [International forms of businesses]. Košice: Elfa. 150 p. ISBN 978-80-8086-189-6.

EUROPEAN COMMISSION. (2018). *Proposal for a COUNCIL DIRECTIVE laying down rules relating to the corporate taxation of a significant digital presence (COM/2018/0147 final - 2018/072 (CNS))*. Brusel. Retrieved from https://eur-lex.europa.eu/legal-content/SK/TXT/?uri=CELEX%3A52018PC0147.

EUROPEAN COMMISSION. (2018). *Proposal for a COUNCIL DIRECTIVE on the common system of a digital services tax on revenues resulting from the provision of certain digital services (COM/2018/0148 final - 2018/073 (CNS))*. Brusel. Retrieved from https://eur-lex.europa.eu/legal-content/SK/ALL/?uri=CELEX%3A52018PC0148

FERNANDEZ, R., McGAURAN, K., FREDERIK, J. (2013). Avoiding tax in times of austerity. Retrieved from http://www.eurodad.org/files/pdf/523c4e96e92c0.pdf

FERREIRA, F. R., MARTINEZ, A. L., COSTA, F. M., PASSAMANI, R. R. (2012). Book-tax differences and earnings management: evidence in the Brazilian equity market. *Revista de Administração de Empresas*, 52(5), 488-501. Doi 10.1590/S0034-75902012000500002

FINANCIAL ADMINISTRATION OF SLOVAK REPUBLIC. (2018). *Výročná správa o činnosti finančnej správy za rok 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 a 2017*. Retrieved from https://www.financnasprava.sk/sk/financna-sprava/vyrocne-spravy

FOAD, H., LUNDBERG, C. (2017). The determinants od portfolio investment in offshore financial centers. *International Review of Financial Analysis*, 54(C), 76-86, Doi 10.1016/j.irfa.2017.08.003.

FRANK, M. M., LYNCH, J. L., REGO, S. O. (2009). Tax reporting aggressiveness and its relation to aggressive financial reporting. *The accounting review*, 84(2), 467-696. Doi 10.2308/accr.2009.84.2.467

HANLON, M., HEITZMAN, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2-3), 127-178. Doi 10.1016/j.jacceco.2010.09.002

KARKINSKY, T., RIEDEL, N. (2012). Corporate taxation and the choice of patent location within multinational firms. *Journal of International Economics*, 88(1), 176-185. Doi 10.1016/j.jinteco.2012.04.002

OECD. (2013). *Action Plan on Base Erosion and Profit Shifting*. Retrieved from http://www.oecd.org/ctp/BEPSActionPlan.pdf

OECD. (2013). *Draft Handbook on Transfer Pricing Risk Asses*sment. Retrieved from http://www.oecd.org/tax/transfer-pricing/Draft-Handbook-TP-Risk-Assessment-ENG.pdf

OECD. (2018). *Annual Report on the OECD Guidelines for Multinational Enterprises 2017*. Retrieved from http://www.oecd.org/investment/mne/annualreportsontheguidelines.htm

POTIN, S., SILVA, V. C., REINA, D., NETO, A. S. (2016). Analise da Relacao de Dependencia entre Proxies de Governanca Corporativa, Planejamento Tributario e Retorno sobre Ativos das Empresas da BM&FBOVESPA. *Revista Organizações em Contexto*, 12(23), 455–478. Doi 10.15603/1982-8756/roc.v12n23p455-478

PWC. (2014). *Transfer pricing: Advance pricing agreements*. Retrieved from http://www.pwc.com/gx/en/tax/transfer-pricing/advance-pricing-agreements.jhtml

SIKKA, P., WILLMOTT, H. (2010). The dark side of transfer pricing: Its role in tax avoidance and wealth retentiveness. *Critical Perspectives on Accounting*, 21(4), 342-356. Doi 10.1016/j.cpa.2010.02.004

SOLILOVA, V., NERUDOVA, D. (2013). Transfer Pricing: General Model for Tax Planning. *Ekonomický časopis*, 61(6), 597-617

TAX JUSTICE NETWORK. (2015). *Transfer pricing*. Retrieved from http://www.taxjustice.net/topics/corporate-tax/transfer-pricing/

USMEN, N. (2012). Transfer Prices: A Financial Perspective. *Journal of International Financial Management & Accounting*, (23)1, 1-22. Doi 10.1111/j.1467-646X.2011.01052.x

VALENCIA, M. (2013). *Storm survivors – Special report*. The Economist. Retrieved from http://www.economist.com/news/special-report/21571549-offshore-financial-centres-have-taken-battering-recently-they-have-shown-remarkable

WEIZIG, F., VAN DIJK, M. (2007). *The global problem of tax havens: the case of the Netherlands. SOMO – Centre for Research of Multinational Corporation*. Retrieved from https://www.somo.nl/the-global-problem-of-tax-havens-the-case-of-the-netherlands/